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REF: A. RABAT 284
¶B. 08 RABAT 693
¶C. 08 RABAT 1109
¶D. 08 RABAT 1110

¶1. (SBU) Summary: Morocco's new energy strategy aims to avert an urgent electricity supply-demand imbalance, as well as lessen Morocco's dependence on energy imports and exposure to price swings, but geography and natural resources make the latter goal elusive. The Ministry of Energy's short term plan will address electricity concerns by boosting generation and reducing consumption. Over the longer term, Morocco seeks to diversify energy sources, reduce Morocco's expensive dependence on petroleum (all imported), and eventually become an exporter of electricity by exploiting domestic renewable resources. The success of the ambitious strategy will depend on continued access to financing for infrastructure development, improvements in the economics of new and cleaner energy technologies, and luck (as regards domestic hydrocarbon development). Perhaps most important will be the political mettle to raise prices and reform subsidies, and establish and maintain a regulatory, financial and legal framework to attract sufficient outside investment in energy projects. Barring an oil strike, however, Morocco will continue to be at the mercy of fluctuations in the world oil markets. End Summary.

OUTLINES FAMILIAR, BUT A FEW MORE DETAILS

¶2. (SBU) The public roll-out of the long-anticipated energy strategy at a March 6 symposium confirmed the outlines reported Ref B, but added further specifics regarding how the Ministry of Energy, Mines, Water, and Environment (MEMEE) anticipates easing electricity supply constraints and the financial strain of high energy costs. Our contacts at Morocco's National Center for Nuclear Energy, Sciences, and Techniques expressed (pleasant) surprise at hearing nuclear power identified as an "open choice" (along with natural gas and solar power) in the King's letter to the energy symposium. It was, they informed Econoff, the first time the King had publicly endorsed nuclear power as an option for electricity generation.

¶3. (U) The strategy's short term and medium term objectives principally aim at addressing a growing supply deficiency in the electrical sector (Morocco imported 17 percent of electricity consumed in 2008), through construction of new gas- and coal-fired power plants, and wind production. Wind generation capacity is expected to grow to 1500 megawatts (MW) by 2012 through identified projects, with a more vague projection of 2200 MW by 2020. However, according to the

National Electricity Office (ONE), technical constraints related to grid stability would cap wind generation at 1500 MW absent grid renovation and reinforcement. The Ministry further took action to reduce demand by allowing (after years of requests from ONE) an augmentation of electricity tariffs paid by business and industrial consumers effective March 1, as well as introducing an incentive plan that offers smaller customers the chance to reduce their rates in exchange for lowering their consumption. Other elements of the medium and long term plan aim at boosting energy efficiency in transport, buildings, and industry, in part through legislation to authorize efficiency standards for the first time.

WHAT MATTERS MOST: ELECTRICITY SUPPLY...

¶4. (SBU) The strategy responds unevenly to the two most pressing energy problems facing Morocco. The first is the supply-demand imbalance for electricity (Ref D), a result of 6 years of annual demand growth between 6 and 8 percent. Assuming availability of project financing, and sufficient interested investors for independent power producer-type projects, the Ministry's and ONE's capacity expansion plans should alleviate generation capacity constraints. The much-delayed tariff hikes are a start on the cost increases needed to provide incentives for efficiency measures and shore up ONE's finances to permit capacity investment. ONE Head of Regulations and Authorizations Mustapha Achour told Econoff on March 30 that the tariff hikes, while finally covering the losses ONE incurred selling power, were insufficient to provide financing for new investment. However, he affirmed, ONE has no plans to finance or construct future production facilities itself, prefering to sign power purchase agreements (PPAs) with independent power producers (IPPs), of which two exist already in Morocco. Only one new power plant currently under construction will be an ONE-owned facility, a combined-cycle solar and gas thermal plant at Ain Beni Mathar, which required state ownership and financing to benefit from a Global Environmental Fund grant.

¶5. (SBU) In a conversation with Econoff, MEMEE's Director of Electricity Abderrahim El Hafidi argued that the international credit crunch was unlikely to impact the planned building of plants and infrastructure investment. Because nearly all of the power plants on the drawing board will be constructed subsequent to PPAs with ONE, with state guarantees, they are "the safest investment possible" for investors, he argued, and would easily attract domestic and foreign financing. The formal requests for proposals for the biggest chunk of new generation, four coal-fired plants totaling 2020 MW at two sites (Jorf Lasfar and Safi), should be issued in June, he predicted. Hafidi noted that the GOM calculates Morocco's required energy sector investments through 2012 at over USD 10 billion (two thirds of that for electricity production), and welcomed U.S. firms' interest in bidding on upcoming contracts.

¶6. (SBU) On the demand side, allowing ONE to raise the tariffs for business and industrial customers will help encourage economies of consumption, as will the "-20/-20" plan. This incentive program, directed at residential customers and local public agencies, proposes a 20 percent reduction of the per kilowatt-hour price if the customer can demonstrate a 20 percent reduction in consumption from the prior year. The Ministry of Energy predicts that this plan alone could reduce peak demand by 300 MW (equivalent to adding a new mid-sized thermal power plant).

... AND PETROLEUM DEPENDENCY

¶7. (SBU) The second critical area facing Morocco is its dependence on imported petroleum, but the GOM appears to have fewer options to ease this concern. Petroleum accounted for 61 percent of primary energy consumption in 2008, and over 87

percent of Morocco's energy costs for 2008. The Ministry's plan has two principal petroleum foci: diversification of supply options and elimination of fuel oil for electricity generation. Removing petroleum from the electricity fuel mix could reduce consumption needs by approximately 1.6 million tonnes (MT) per year (of the total 9 MT consumed in 2009), although some of the fuel oil is a byproduct of refining other petroleum products and its phasing out may not result in an equivalent reduction of import demand. Plans to improve vehicle efficiency by subsidizing the replacement of older vehicles may help as well, but at the moment the GOM targets only commercial truckers (with an anticipated budget of USD 63 million), lacking sufficient funds to subsidize replacement of the far greater number of old, inefficient private vehicles. (Note: The average age of Moroccan vehicles is 13 years. End Note.) The Ministry of Energy projects total petroleum demand to double nonetheless to 18 MT per year by 2030.

¶8. (SBU) In the meantime, Morocco aims to reduce its potential vulnerabilities as an import-dependent country by upgrading and increasing the number of ports able to receive petroleum and product shipments to address a bottleneck in capacity -- current ports are incapable of night operations and often must suspend operations in heavy weather in winters. Said El Aoufir, Director of Combustible Fuels at the Ministry of Energy, told Econoff that the "multiplication" of importation points, and increases in refinery capability, will ensure sufficient supply, although Morocco will remain vulnerable to price swings. MEMEE regulations require refiners and distributors to maintain a total of 90 days supply in stock, adding a cushion against supply disruptions. However, Morocco's supply options remain limited, with Saudi Arabia, Russia, and Iran accounting for 96 percent of all imports. Alternatives to these suppliers are rare, El Aoufir, explained, because crude oil from most other sources is either too heavy (and unsuited for Morocco's refineries) or too light (producing too much gasoline and not enough diesel for Moroccan markets). Although the Ministry sets rules for importers to follow in terms of stockpiles, the Moroccan refiner SAMIR and other refined products distributers are responsible for their own commercially-negotiated supply contracts (usually of one year duration), El Aoufir said. Moroccan petroleum importers do not benefit from concessionary rates from any of their suppliers, nor have they ever tried to hedge against price increases, he added.

ANY CHANCE OF FINDING OIL?

¶9. (SBU) Moroccan officials remain optimistic that the Kingdom could hold as-yet undiscovered hydrocarbon wealth. M'hamed El Moustaine, Director of Exploration at the National Office of Hydrocarbons (ONHYM), told Econoff that due to a dearth of historical exploration activity, Morocco has a "deficit" of 70,000 test wells compared to the "world average" of 10 wells per 100 square kilometers of exploration area. (Note: Morocco's "deficit" is in part due to exploration companies' lower expectations of finding commercially viable deposits than in other regions. End Note.) ONHYM has constantly fine-tuned its policies for exploration and production concessions to attract exploration partners, Moustaine explained, and assesses itself in the top ten countries with the most favorable terms for explorers and producers worldwide. ONHYM allows 8 year exploration permits, along with conversion to a 25 year production concession on terms that allow ONHYM to partner up to 25 percent for investment and production, with the other partners free to sell their 75 percent without conditions. Moustaine explained that most exploration currently occurs in well-understood formations in the northern part of the Kingdom, where explorers have a very good chance of discovering small, but exploitable gas deposits which are usually sold locally. A few explorers, however, have begun drilling in less-well characterized formations, and some offshore drilling has begun in both the north Atlantic coast

and the areas off of Western Sahara. Moustaine noted that exploration in Western Sahara is depressed due to companies facing pressure from Algeria -- Algeria, he stated, tells companies doing business in Algeria that they must avoid Western Sahara or lose the right to work in Algeria.

¶10. (SBU) Notwithstanding the uptick in drilling activity this year (six active drilling rigs compared with the norm of two, according to Moustaine), petroleum imports will continue to command a large portion of Morocco's import bill, continuing a serious burden on the Kingdom's balance of payments (Ref A). A parallel budgetary burden, and equally worrisome in the long term, is the enormous bill for general subsidies on petroleum products for transportation fuel (whose cost to the government varies with world petroleum prices), and especially for butane. Subsidized generally as a cooking fuel, butane sells for approximately half its cost to the importer, with the treasury making up the difference. As expected with general subsidies, the GOM believes the vast majority of its subsidy spending supports middle and upper class consumers, but it lacks the statistics to reveal the true proportions. Septel will explore the GOM's deliberations of reforms to target subsidies to the populations who are most in need.

¶11. (SBU) Comment: Morocco's new energy plans appear to adequately address the tight electricity market through capacity expansion, but two question marks remain. The first is whether the Ministry's optimistic assessment of the availability of credit to finance the required new generation capacity is correct in the context of a global credit shortage. Morocco has witnessed slowdowns or stoppages in 2009 of many projects funded by foreign investment, so even ONE's guaranteed PPAs may not attract financing as plentiful or as affordable as expected. The subsidy and tariff question will be even more delicate, as long term financial stability for ONE and increased efficiency of electricity and hydrocarbon use will require difficult political decisions to raise the costs of energy consumption for consumers. No amount of planning or strategy, however, can free the Kingdom from its petroleum import dependency, so every announcement of potential gas and oil finds will continue to make headline news as Moroccans aspire to join their North African neighbors as petroleum producers.

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